Prince Edward Island
CANADA

Civil Service Superannuation Fund

Annual Report 2011-2012

The Honourable H. Frank Lewis
Lieutenant Governor of Prince Edward Island
PO Box 846
Charlottetown, PE C1A 7L9

May it Please Your Honour:

In accordance with section 6 of the *Civil Service Superannuation Act*, I am pleased to present to you the Annual Report of the Province of Prince Edward Island Civil Service Superannuation Fund for the fiscal year ended March 31, 2012.

Respectfully submitted,

Wes Sheridan,
Minister of Finance, Energy and Municipal Affairs

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Introduction

The Civil Service Superannuation Fund (CSSF) was established in 1945 and provides retirement income to members and the dependants of deceased members, in accordance with the *Civil Service Superannuation Act* (CSSA).

Plan Description

The CSSF is a contributory, defined benefit pension plan financed by contributions from participating employers and employees, and by investment earnings from the Master Trust Investment Fund.

Contributions – In 2011-2012, members of the plan contributed the following:

- 7.09 percent of pensionable earnings up to the Yearly Maximum Pensionable Earnings (YMPE), and
- 8.75 percent of pensionable earnings in excess of the YMPE.

The YMPE was $48,300 for 2011 and $50,100 for 2012.

The employer matches contributions made by the members on a bi-weekly basis.

Membership – The general criteria for membership to the CSSF is that an employee must be permanent with an approved participating employer.

Unreduced Pension – An unreduced monthly pension is payable for life to a member who meets one of the criteria below:

- has attained the age of 60 with two or more years of service;
- has attained the age of 55 with 30 or more years of pensionable service.

The benefit is calculated as 2.0 percent multiplied by the years of pensionable service, multiplied by the average of the three highest years of pensionable earnings. Please note that for salary below the Canada Pension Plan's YMPE, the 2.0 percent benefit is comprised of:

a) a 1.3 percent life-time benefit, and

b) a 0.7 percent temporary bridge benefit, payable from the date of retirement to age 65.

Early Retirement – Eligible members can opt for an early retirement pension benefit as early as age 55. In these cases, the pension amount is reduced by the lesser of:

a) 3.0 percent for each year prior to age 60, or

b) 3.0 percent for each year prior to attaining 30 years of pensionable service.

It should be noted that the early retirement reduction is applied to both the life-time and bridge benefits, and remains in effect for their entire duration.

Benefits on Termination – A member in the CSSF becomes vested after two years of continuous service in the plan.

a) Vested members are eligible for either a deferred pension or a refund of employee contributions plus interest.

b) Non-vested members are eligible for a refund of employee contributions plus interest.

Inflation Protection – Pensions are increased by the change in the Consumer Price (all items) Index for Canada, to a maximum of 6.0 percent, on the first day of April of each year. The pension payment received upon retirement and the value of a deferred pension benefit are both indexed annually under the CSSF. Indexation applied at April 1, 2011 was 1.80 percent.

Death Benefits – The CSSF provides for both spousal and dependant benefits to eligible survivors of vested members.

Fund Administration

Administration of the CSSA is assigned to the Pensions and Benefits Section of the Department of Finance, Energy and Municipal Affairs with investment management support provided by the Province of Prince Edward Island Master Trust.

The CSSF's assets are managed independently by professional fund managers. The fund managers responsible for the CSSF's investments at March 31, 2012, were:

Canadian Bonds

Beutel Goodman

MFS McLean Budden

Canadian Equities

Beutel Goodman

Burgundy Asset Management

MFS McLean Budden

Foreign Equities

Baillie Gifford Overseas Limited

Franklin Templeton

Lazard Asset Management

Real Estate Investment

Bentall Kennedy (Canada) LP

Greystone Managed Investments Inc.

Currency Hedging

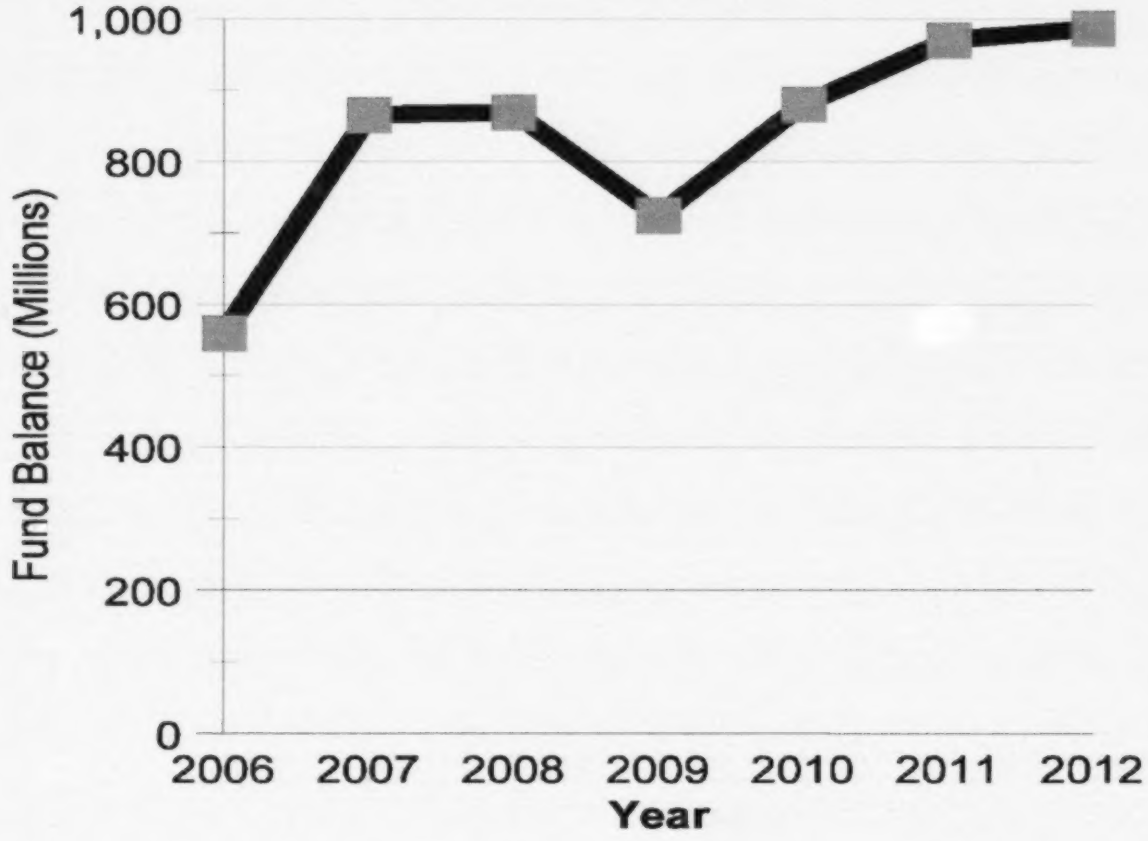
State Street Global Advisors

The total asset balance of the CSSF at March 31, 2012 was approximately $987 million, up from $971 million as at March 31, 2011.

Diagram 1 shows the CSSF total asset balance from 2006 - 2012.

Diagram 1

CSSF Total Asset Balance



Employers – At March 31, 2012, there were 18 participating employers in the CSSF with a total of 6,983 full- and part-time members. Health PEI and the Province of PEI were the largest employers with 4,109 and 2,388 members respectively. Small employers accounted for 298 members

and there were another 188 members on long-term disability claims. Additionally, 390 members were deferred at March 31, 2012.

Table 1 lists employers and the corresponding number of members.

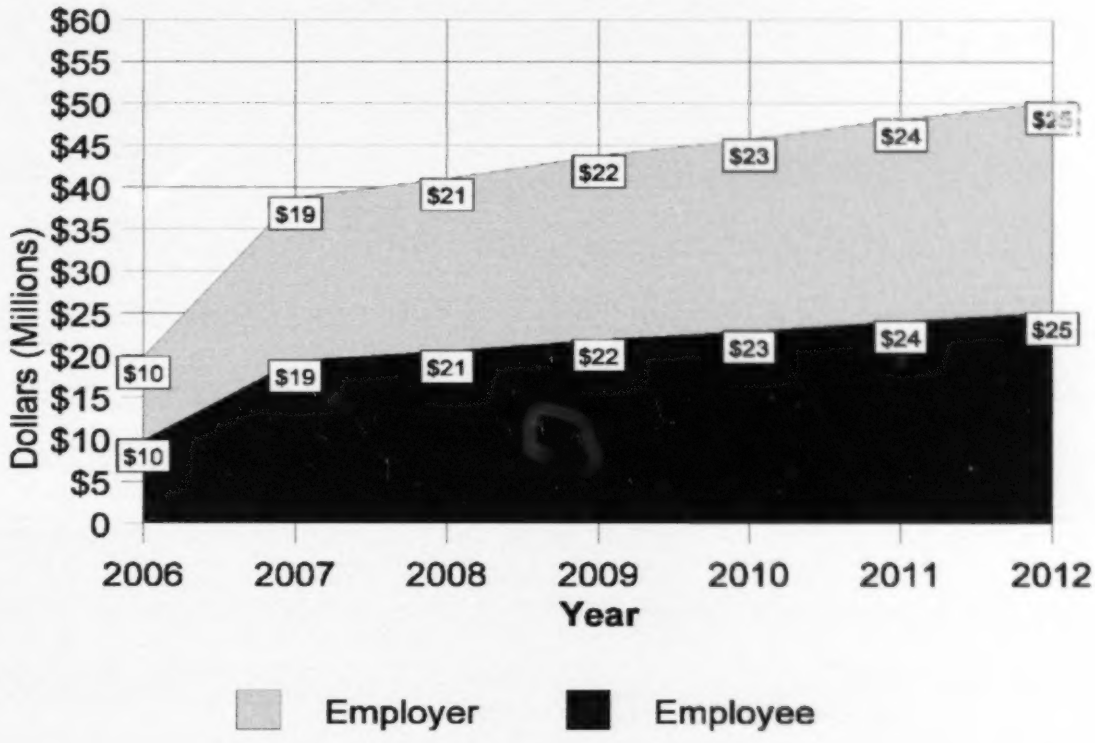
Table 1
Membership by Employer

Participating Employers	Total Members
Health PEI	4,109
Province of PEI Departments	2,388
Innovation PEI	96
Workers' Compensation Board (WCB)	72
Island Waste Management Corporation (IWMC)	45
Island Regulatory and Appeals Commission (IRAC)	22
PEI School Boards	15
Lending Agency	12
Potato Board	10
Union of Public Sector Employees (UPSE)	10
Grain Elevators	8
Environmental Industrial Services Inc.	5
Status of Women	3
LTD Providers	
Great West Life	99
Manulife	80
Sunlife	9
Total Members	**6,983**

Regular Contributions – Regular contributions are made to the CSSF via payroll deductions. For 2011-2012, the regular contributions from both the employers and employees combined were approximately $50.0 million, up from $48.0 million in 2010-2011. Other contributions include special payments from the Province, payments for prior service, and transfers in from other plans via reciprocal agreements.

Diagram 2 depicts, by year, the regular employer and employee contributions made to the CSSF from 2006 - 2012.

Diagram 2
Regular Contributions



Special Contribution – To help address the unfunded liability of the CSSF, the Province of Prince Edward Island periodically makes special contributions to the CSSF in the form of a promissory note. There is currently one promissory note in place for which payments are being made.

Beginning October 15, 2006, the Province issued a promissory note to the Fund equal to $52 million. This note is receivable in ten equal annual installments of $5.2 million plus interest at the rate of 4.41 percent per annum. Interest is paid semi-annually on April 15 and October 15.

Pension Payments – Annual pension payments in 2011-2012 were approximately $48 million. This is shown in **Diagram 3** on the next page.

Approximately 92 percent of the pension payroll was paid to members and the remaining eight percent was paid out as spousal and dependant benefits.

Pensioners – As of March 31, 2012, the number of persons receiving pension was 3,092. **Table 2**, on page 9, outlines the number of new pensioners, their average age and average annual gross pension for the most recent fiscal years.

Diagram 3

Pension Payments

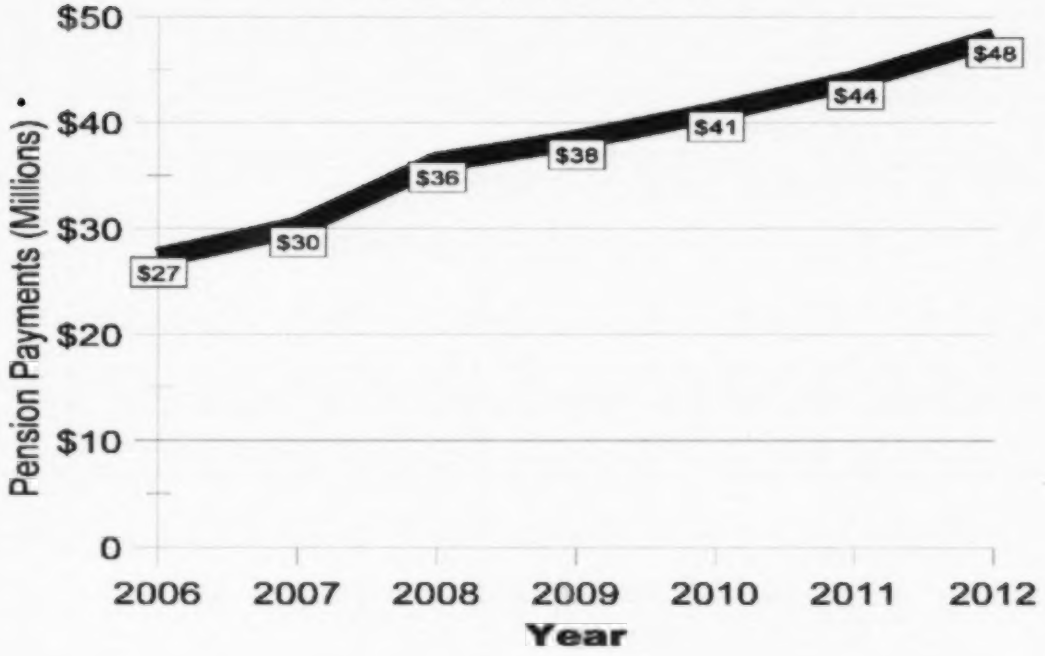


Table 2

Number of New Pensioners with Average Age and Average Annual Pension

Fiscal Year	No. of New Pensioners	Average Age	Average Annual Pension
2011-2012	188	60.69	$ 21,587
2010-2011	188	60.08	$ 21,880
2009-2010	154	59.39	$ 21,857
2008-2009	129	59.39	$ 20,168
2007-2008	117	59.16	$ 18,542

Table 3 outlines the various categories of pension recipients along with the average annual pension for each category as at March 31st.

Table 3

Pension Categories and Average Annual Pension

Category	Number of Pensions		Average Annual Pension	
	2012	2011	2012	2011
Members	2,663	2,548	$ 16,934	$16,701
Spousal	414	383	$ 9,594	$ 9,503
Dependants	15	11	$ 3,916	$ 4,966
Total Pensions	**3,092**	**2,942**		

Actuarial Requirement – Federal legislation requires that an actuarial valuation be performed once every three years to evaluate the funding status of the CSSF. Actuarial valuation reports require best estimate assumptions about future events to determine the liabilities of the fund as of the valuation date. The actual assets of the fund, as of the valuation date, are then compared to the liabilities to determine the plan's funding status.

The most recent actuarial valuation was completed as of April 1, 2011. This valuation was based on the following membership data:

1) 6,997 Active Members
   Average salary of $42,901
   Average age of 47.0 Years

2) 2,953 Retirees
   Average annual pension of $15,727
   Average age of 69.8 Years

3) 511 Deferred Members
   Average annual pension of $6,653
   Average age of 48.1 Years

The value of the plan assets as at April 1, 2011, was $967,953,000, which represents 77.9 percent of the actuarial liability of $1,243,016,000.

Table 4 details the actuarial valuation statement of financial position as at April 1, 2011.

Table 4

Going-Concern Financial Position

April 1, 2011

Value of Assets		
Market Value	$967,953,000	
Actuarial Liability		**Percentage of Total Liabilities**
Active Members	$ 691,714,000	*55.6%*
Deferred Members	29,960,000	*2.4%*
Pensioners and Beneficiaries	521,518,000	*42.0%*
Total	**$ 1,243,016,000**	
Actuarial Surplus (Unfunded Liability)	$ (275,063,000)	
Funding Ratio	77.9%	

Highlights for 2011-2012

Investment Management

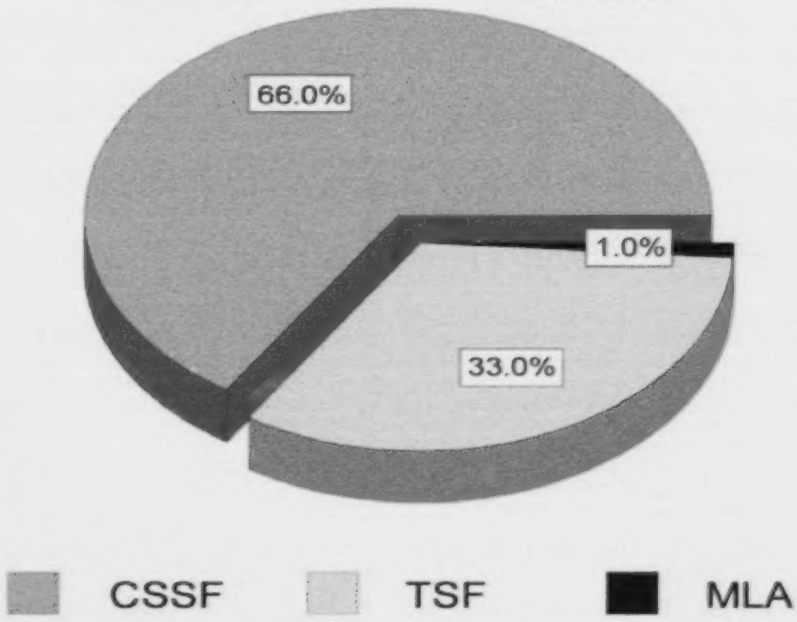
The largest contributor to the growth of CSSF assets is normally investment income. These investments are held in the Province of Prince Edward Island Master Trust. The CSSF, MLA Pension Fund and the Teachers' Superannuation Fund participate in the Master Trust. In 2011-2012, approximately 66 percent of the funds in the Master Trust were assets of the CSSF. An overview of the Master Trust at March 31, 2012 is shown below in **Diagram 4**.

As of March 31, 2012, the rate of return of the Master Trust was as follows:

- Annual rate of return: 1.5 %
- Ten year rate of return: 4.6 %

Diagram 4

Master Trust Investments



CSSF Assets

During 2011-2012, there was a net increase to CSSF assets of approximately $16 million (the difference between Table 5 and Table 6).

Table 5 shows the receipts and income, by source, which totalled approximately $70 million.

Table 5
Receipts and Income

Type	Amount
Employee Contributions	$ 25,082,471
Employer Contributions	25,082,471
Transfers From Other Plans	1,791,488
Purchased Service	588,398
Other Income	1,081,288
Investment Income	31,277,799
Market Value Decrease	(14,619,832)
Total	**$ 70,284,083**

Table 6 shows the expenditures for 2011-2012, which totalled approximately $54 million.

Table 6
CSSF Expenditures

Type	Amount	% of Expenditures
Benefits Paid	$ 48,112,904	
Refunds	589,741	
Transfers	1,153,293	
Total Benefit Expenses	**$ 49,855,938**	**91.78%**
Benefit Administration	$ 493,471	
System Fees	125,930	
Investment Administration	74,144	
Pension Payroll TPA fees	18,995	
Total Administrative Expenses	**$ 712,540**	**1.31%**
Consulting Fees	$ 148,702	
Total Consulting Fees	**$ 148,702**	**0.27%**
Investment Manager Fees	$ 3,299,452	
Monitoring Fees	187,079	
Custodial Fees	120,899	
Total Investment Expenses	**$ 3,607,430**	**6.64%**
Total	**$ 54,324,610**	**100.00%**

Administrative Advisory Committee

The Administrative Advisory Committee provides a forum for the purposes of reviewing issues which may arise in the administration of the plan and provide advice to the Minister of Finance, Energy and Municipal Affairs on such issues. As of March 31, 2012, the committee had ten members as follows:

No of Members	Member	
1	*Chairperson* - Deputy Minister of Finance, Energy and Municipal Affairs	Steve MacLean
1	International Union of Operating Engineers	Gerald Poirier
1	PEI Nurses' Union	Blair MacDonald
1	Canadian Union of Public Employees	Lane MacLaren
2	Union of Public Sector Employees	Shelley Ward Mark A Arsenault
1	Department of Finance, Energy and Municipal Affairs	Doug Clow
2	Health PEI	Muriel MacLeod Denise Lewis-Fleming
1	PEI Public Service Commission	Allan O'Keefe

Master Trust Investment Advisory Committee

The Master Trust Investment Advisory Committee provides advice to the Minister of Finance, Energy and Municipal Affairs on the following items:

- protection of the principal assets of the Master Trust;
- monitoring of costs;
- recommendations on investment fund asset mix;
- review of investment fund and fund manager performance standards; and
- compliance with both federal and provincial requirements relating to ownership of foreign equities.

At March 31, 2012, the following were members of the Master Trust Investment Advisory Committee:

Chairperson - Comptroller, Treasury Board Secretariat	Doug Clow
Prince Edward Island Teachers' Federation	Michel Plamondon
Union of Public Sector Employees	Karen Jackson (acting) Donalda Docherty
International Union of Operating Engineers	Gerald Poirier
Canadian Union of Public Employees	Leonard Gallant
PEI Nurses' Union	Susan Marchbank
Provincial Government	Terry Hogan Gordon MacFadyen
Member of the Legislative Assembly	Francis (Buck) Watts
Ex Officio outside designates Fiscal Agents	Tim Van Alstyne, *RBC Dominion Securities Inc.* Bill Hastie, *Scotia Capital Inc.*
Ex Officio outside designates Consultants	Paul Malizia and Tony Politano, *Aon Hewitt*

Audit Requirements

In accordance with section 13 of the *Audit Act*, the financial statements have been examined by the Office of the Auditor General whose report is included in the appendix of this annual report.

Contact Information

For further information concerning the administration of the ***Civil Service Superannuation Act***, please contact:

Pensions and Benefits
Department of Finance, Energy and Municipal Affairs
3rd floor Sullivan Building, 16 Fitzroy Street
PO Box 2000
Charlottetown, PE C1A 7N8
Telephone: (902) 368-4200
Fax: (902) 620-3096

Terry Hogan, Manager
Crystal Burrows, Operations Supervisor
Pamela MacEachern, a/Pension Information Officer

For further information concerning the **Master Trust Fund**, please contact:

Alan Silliker, Manager
Debt, Investments and Pensions
Department of Finance, Energy and Municipal Affairs
Office of the Comptroller
Tel: (902) 569-7666

Appendix

Audited Financial Statements
for
2011-2012

PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND

Financial Statements
March 31, 2013

Management's Report

Management's Responsibility for the Financial Statements

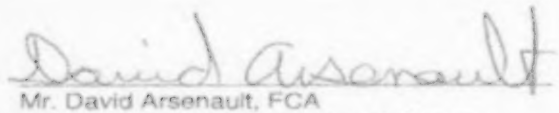
The financial statements have been prepared by management in accordance with Canadian accounting standards for pension plans and the integrity and objectivity of these statements are management's responsibility. Management is responsible for the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for implementing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced.

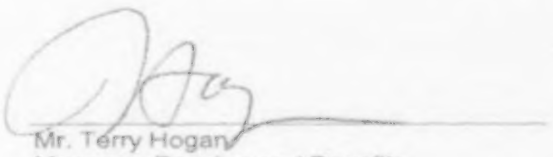
The Minister of Finance, Energy and Municipal Affairs is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Minister reviews internal financial reports on a regular basis and externally audited financial statements yearly.

The Auditor General conducts an independent examination, in accordance with Canadian generally accepted auditing standards and expresses her opinion on the financial statements. The Auditor General has full and free access to financial information and management of the Prince Edward Island Civil Service Superannuation Fund to meet when required.

On behalf of the Prince Edward Island Civil Service Superannuation Fund



Mr. David Arsenault, FCA
Deputy Minister, Department of Finance,
Energy and Municipal Affairs



Mr. Terry Hogan
Manager, Pension and Benefits

September 24, 2014

Prince Edward Island
Office of the
Auditor General
PO Box 2000, Charlottetown PE
Canada C1A 7N8

Île-du-Prince-Édouard
Bureau du
vérificateur général
C.P. 2000, Charlottetown PE
Canada C1A 7N8

INDEPENDENT AUDITOR'S REPORT

Honourable Wesley J. Sheridan
Minister
Department of Finance, Energy and Municipal Affairs
Province of Prince Edward Island

I have audited the financial statements of the **Prince Edward Island Civil Service Superannuation Fund** which comprise the statement of financial position as at April 1, 2011, March 31, 2012 and 2013, and the statements of changes in net assets available for benefits and changes in pension obligation for the 2012 and 2013 years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted the audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at April 1, 2011, March 31, 2012 and 2013, and the changes in its net assets and pension obligation for the 2012 and 2013 years then ended in accordance with Canadian accounting standards for pension plans.

B. Jane MacAdam

B. Jane MacAdam, CA
Auditor General

Charlottetown, Prince Edward Island
September 24, 2014

PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND
Statement of Financial Position
March 31, 2013

	2013	2012	April 1, 2011
	$	$	$
Assets			
Cash	4,383,181	1,902,946	1,416,820
Investments (Note 3)	1,055,545,200	959,441,987	938,123,170
Note receivable (Note 5)	166,361,400	20,800,000	26,000,000
Receivables			
Contributions - employee	1,164,410	1,879,269	1,819,079
- employer	1,316,774	1,915,576	2,301,308
Accrued interest	2,501,670	420,840	526,050
Other	304,917	712,024	655,327
Total Assets	1,231,577,552	987,072,642	970,841,754
Liabilities			
Accounts payable and accrued liabilities	942,053	618,675	424,792
Income taxes payable	670,592	589,161	544,087
Investment fees payable	1,200,950	1,048,500	1,003,450
Other remittances payable	170,448	153,321	150,001
Due to the Province of Prince Edward Island	969,729	750,295	766,207
Total Liabilities	3,953,772	3,159,952	2,888,537
Net Assets Available for Benefits	1,227,623,780	983,912,690	967,953,217
Accrued Pension Obligation (Note 4)	1,364,096,777	1,195,250,942	1,107,940,359
Net Deficit	136,472,997	211,338,252	139,987,142

(The accompanying notes are an integral part of these financial statements.)

Approved by

Minister, Department of Finance, Energy and Municipal Affairs

PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND
Statement of Changes in Net Assets Available for Benefits
for the year ended March 31, 2013

	2013	2012
	$	$
Increase in Assets		
Investment income (Note 3(a))		
Interest	11,629,574	13,812,042
Dividends	16,871,398	17,465,757
Change in fair value of investments	64,288,583	(14,619,832)
	92,789,555	16,657,967
Other interest income	5,238,887	1,081,288
Contributions		
Employee	26,900,688	25,082,471
Employer	26,903,616	25,082,471
Transfers from other plans	410,612	1,791,488
Purchased service	949,257	588,398
Government contributions towards unfunded liability (Note 5)	150,761,400	-
	303,954,015	70,284,083
Decrease in Assets		
Benefits paid	52,867,332	48,112,904
Operating expenses (Note 6)	5,698,843	4,468,672
Refunds	794,500	589,741
Transfers	882,250	1,153,293
	60,242,925	54,324,610
Change in Net Assets	243,711,090	15,959,473
Net Assets Available for Benefits, beginning of the year	983,912,690	967,953,217
Net Assets Available for Benefits, end of year	1,227,623,780	983,912,690

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND

Statement of Changes in Pension Obligation
for the year ended March 31, 2013

	2013	2012	April 1, 2011
	$	$	$
Accrued Pension Obligation, beginning of Year	1,195,250,942	1,107,940,359	1,004,478,830
Change in Accrued Pension Obligation			
Interest accrued on benefits	87,754,615	82,040,497	76,273,304
Benefits accrued	44,083,005	42,190,167	34,626,093
Increase due to purchase service	1,359,869	2,379,886	1,553,272
Benefits paid	(54,544,082)	(49,855,938)	(45,836,798)
Changes due to actuarial assumptions	90,192,428	10,555,971	36,845,658
Change in Accrued Obligation	168,845,835	87,310,583	103,461,529
Accrued Pension Obligation, end of year (Note 4)	1,364,096,777	1,195,250,942	1,107,940,359

(The accompanying notes are an integral part of these financial statements.)

1. Plan Description

The following description of the Prince Edward Island Civil Service Superannuation Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Civil Service Superannuation Act* and *Regulations*.

a) General

The Plan is a contributory defined benefit plan covering members as defined in the *Civil Service Superannuation Act*.

b) Contributions

Under the Plan, employees and employers make equal contributions amounting to 7.09 percent of that part of the members' salary up to the amount of the year's maximum pensionable earnings (YMPE) as defined in the *Canada Pension Plan Act* and 8.75 percent on the amount that exceeds the YMPE.

Effective January 1, 2013, contribution rates for the Plan increased to 8.09 percent of pensionable earnings up to and including the YMPE and 9.75 percent of pensionable earnings above the YMPE.

c) Retirement Benefits

A member who has attained the age of 60, and has completed at least two years of service, or has attained the age of 55 and has completed 30 years of pensionable service is entitled to an unreduced pension which is payable in equal monthly installments.

The annual amount of the pension is equal to two percent of the average salary of the member in the three year period of pensionable service during which such average salary is highest, multiplied by the number of years of pensionable service. When the member reaches the age of 65 (or if he or she is 65 or over at retirement) the amount of pension described above is integrated with the Canada Pension Plan. The pension is reduced by 0.7 percent of the average salary up to the average YMPE during the three year period over which the average salary has been computed, multiplied by the number of years of the member's pensionable service after July 1, 1966, or July 1, 1972, depending on the election of the member, and payment of the required contributions to be eligible for the smaller offset.

Reduced benefits are available at age 55 with two years pensionable service. The pension for a member who retires prior to age 60 (and who is not entitled to an unreduced pension) is calculated as described in the previous paragraph but then is reduced by 0.25 percent for each month by which the early retirement date precedes the member's earliest unreduced retirement age. It is calculated by using the lesser of the number of months between the date of actual retirement and the date the member would attain age 60 or the number of months between the date of actual retirement, and the date the member would have at least 30 years of service.

1. Plan Description (continued...)

c) Retirement Benefits (continued...)

The above formula determines the amount of a member's initial pension at retirement. In subsequent years, the amount of a member's pension is increased in line with increases in the Consumer Price Index. The increase in any one year is limited to no more than six percent.

d) Death Benefits

On the death of a member prior to completing two years of pensionable service, or after completing two years of service but leaving no surviving spouse, or dependent children, the member's accumulated contributions with interest will be refunded. If a member dies prior to retirement but after completing two years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60 percent of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one-sixth of the pension paid to the surviving spouse is payable in respect of each dependent child, up to a maximum of four children, until the child attains the age of 18 or until the age of 21 if the child is attending school full-time.

e) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

- a refund of the member's own contribution with interest, or
- if the member has completed at least two years of service, a deferred pension commencing when the member attains the age of 60.

Where there are portability arrangements between the Plan and other plans, members may be able to carry certain pension rights to those other plans or transfer contributions and service from those other plans to increase pension benefits under the Plan.

f) Marriage Breakdowns

Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

g) Income Tax

The Fund is a Registered Pension Plan as defined under the federal *Income Tax Act* and is not subject to taxation.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements for the year ended March 31, 2013, have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the Chartered Professional Accountants of Canada (CPA) Handbook Section 4600, Pension Plans. For accounting policies that do not relate to either investments or pension obligations, the Fund has elected to comply on a consistent basis with accounting standards for private enterprises (ASPE) in Part II of the CPA Handbook. To the extent that ASPE in Part II is inconsistent with Section 4600, Section 4600 takes precedence. Prior period financial statements were prepared in accordance with Canadian generally accepted accounting principles for the private sector. The adoption of accounting standards for pension plans has been applied retroactively. The application of the new accounting framework did not affect previously reported results. Impacts on the financial statements were limited to presentation and disclosure.

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Fund as a separate reporting entity.

a) Use of Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include investments, accrued interest, accrued liabilities, and the accrued pension obligation.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates and the differences could be material.

b) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the transaction date. The fair value of foreign investments and cash held at year-end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in the current period change in fair value of investments.

c) Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

2. Summary of Significant Accounting Policies (continued...)

c) Fair Value Measurement (continued...)

When available, the Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Fund establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and/or discounted cash flow analysis.

d) Financial Instruments

The Fund's financial instruments include cash, contributions and other receivables, accrued interest, notes receivable, investments, accounts payable, accrued liabilities, amounts due to the Province of Prince Edward Island, income taxes payable, investment fees payable, and other remittances payable. Due to their nature, the Fund's financial instruments, with the exception of investments, are carried at cost which approximates their fair value. Investments are carried at fair value and are subject to interest, credit, currency, price, and liquidity risks as described in Note 3.

e) Investments

Investments represent a pool of assets held in a master trust and allocated to each member by units of participation. The Prince Edward Island Master Trust represents a contract between the members (contributors) and the trustee (Minister of Finance, Energy and Municipal Affairs). All investments held by the Master Trust are classified as held for trading. Investments are designated at fair value through the statement of changes in net assets available for benefits. Investment purchase and sale decisions are based on their fair value in accordance with the Master Trust's Statement of Investment Policies and Procedures. Significant accounting policies for the pool of assets held in the Master Trust consist of:

(i) Investment transactions
Investment transactions are recognized on the transaction date. Distributions are recognized on the record date. Investments include receivables and payables at March 31, 2013, for interest, dividends, and settled derivative contracts.

(ii) Income recognition
Income from investments is recorded on an accrual basis and includes interest and dividends as well as gains and losses that have been realized on disposal of investments and the unrealized gains and losses on investments.

2. Summary of Significant Accounting Policies (continued...)

e) Investments (continued...)

(iii) Investment valuation

Equity and debt
Equity and debt investments are valued at fair value based on quoted market value Changes in the market value of investments, including realized and unrealized gair and losses, are reflected in the financial statements as a change in the fair value investments.

Equity investment in real estate
Investment in real estate is represented by an equity investment in a corporation th invests in real estate, participating mortgages, and property for development resale. Properties within the corporation are valued annually by independe appraisers in accordance with generally accepted appraisal practices an procedures. The appraisal methodology followed is an income approach which mainly based on discounted cash flows. In estimating future cash flows, certai assumptions are made with respect to future economic conditions and rates return.

Pooled funds
Pooled funds are valued at the unit values supplied by the pooled fund administrato which represents the Fund's proportionate share of underlying net assets at fa values determined using closing market prices.

Derivative contracts
The derivative contracts held by the Fund are stated at fair value and are value using quoted market indices. Realized and unrealized gains or losses on investment from derivative contracts are included in the change in the fair value of investments.

Investment in foreign infrastructure
The Fund owns units in a foreign infrastructure partnership. The partnership invest in portfolio companies that own, operate, develop, manage, and suppo infrastructure assets. Fair value is based upon a number of factors, including readil available market quotes with appropriate adjustments for trading restrictions, th most recent round of financings, earning-multiple analysis using comparabl companies or discounted cash flow analysis.

(iv)Transaction costs

Investment management fees are costs directly attributable to the externa management of the assets. Fees incurred on the management of equity holdings i real estate are paid directly as a reduction in the fair value of the investment. Fee incurred on the management of other investments are recorded as an investmer

2. Summary of Significant Accounting Policies (continued...)

f) Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

g) Accrued Pension Obligation

The value of the accrued pension obligation of the Fund is based on a tri-annual actuarial valuation prepared on an accounting basis by an independent actuary using the projected unit credit method pro-rated on service and best estimate assumptions. The accrued pension obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Fund. An estimated update, which is a calculation based on an extrapolation of the most recent valuation, is calculated by management at the end of each fiscal year.

h) Net Deficit

For financial statement reporting, the deficit of the Fund is based on the difference between the fair value of the Fund's net assets available for benefits and the Fund's accrued pension obligation.

3. Investments and Derivatives

a) Investments

Investments consist of units held in the Master Trust. At year-end, there were 811,740.032 units held in the Master Trust (2012 - 779,932.65), with a fair value of $1,300.35 (2012 - $1,230.16) per unit.

3. Investments and Derivatives (continued...)

a) Investments (continued...)

Investments of the Master Trust consist of the following listed assets.

	2013 $	%	2012 $	%
Canadian short-term investments	11,822,575	0.8	16,694,179	1.2
Other liquid assets	8,854,073	0.6	575,215	-
Bonds, debentures and notes	507,634,690	32.0	520,481,559	35.7
Canadian equity securities	341,983,336	21.5	334,258,479	23.0
Foreign equity securities	629,371,697	39.6	533,578,128	36.8
Equity investments in real estate	71,853,294	4.5	43,447,788	3.0
Foreign Infrastructure	8,264,963	0.5	-	-
Currency forwards	3,952,017	0.2	(1,784,741)	(0.1)
Accrued income	5,094,385	0.3	5,849,219	0.4
Total	1,588,831,030	100.0	1,453,099,826	100.0
Fund's pro-rated share	66.4353%		66.0273%	
Fund's investments **	1,055,545,200		959,441,987	

Investment income and realized and unrealized gains (losses) of the Master Trust consist of the following:

	Investment Income (Losses) 2013 $	Realized/ Unrealized Gains (Losses)* 2013 $	Investment Income 2012 $	Realized/ Unrealized Gains (Losses)* 2012 $
Canadian short-term investments	25,096	1,688	160,511	(41)
Other liquid assets	(71,529)	(752,256)	69,195	67,810
Bond, debentures, and notes	17,601,967	152,784	20,619,046	28,008,435
Canadian equity securities	12,012,532	21,770,398	12,501,202	(49,015,417)
Foreign equity securities	13,594,730	68,162,134	14,453,226	(2,600,316)
Equity investments in real estate	-	4,391,587	-	2,434,744
Foreign infrastructure	-	1,113,197	-	-
Currency forwards	102,714	1,484,697	-	(2,185,941)
Total	43,265,510	96,324,229	47,803,180	(23,290,726)
Fund's pro-rated share	65.8746%	66.7419%	65.4304%	62.7710%
Fund investments**	28,500,972	64,288,583	31,277,799	(14,619,832)

* Includes realized gains of $10.9 million (2012 - gains of $10.1 million) and unrealized gains of $85.4 million (2012 - losses of $33.4 million).

** Rounded

3. Investments and Derivatives (continued...)

a) Investments (continued...)

Investments include amounts which investment managers of the Master Trust have invested in their own pooled funds. The fair values of these investments are as follows:

	2013 $	2012 $
Beutel Goodman & Company Ltd.	17,120,236	17,025,141
Lazard Ltd.	206,108,221	177,348,637
Baillie Gifford Overseas Ltd.	210,927,332	177,214,925
Bentall Kennedy	41,905,942	38,343,382
Greystone Real Estate Fund Inc.	29,947,154	5,104,209
Global Infrastructure Partners	8,264,963	-
Total	514,273,848	415,036,294
Fund's pro-rated share	66.4353%	66.0273%
Fund's pooled funds	341,659,374	274,037,259

b) Derivative Contracts

Derivative contracts are financial contracts, the value of which is "derived" from the value of underlying assets or exchange rates. Derivative contracts provide flexibility in implementing investment strategy.

Forward contracts are used to manage currency exposure and mitigate risk with respect to investments held in foreign currencies. The net notional amount of the currency forwards represents the volume of the outstanding transactions and serves as the basis upon which the return and market value of the contract is determined.

The following provides details of derivative contracts outstanding as of March 31, 2013.

	2013 $	2012 $
Notional Amount	221,514,146	183,685,343
Fair Value	3,952,017	(1,784,741)

c) Fair Value Disclosure

Fund investment assets recorded at fair value have been categorized based upon a fair value hierarchy of significant inputs used in measuring fair value. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at March 31, 2013.

3. Investments and Derivatives (continued...)

c) Fair Value Disclosure (continued...)

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date. Level 1 primarily includes publicly listed investments.

Level 2: Inputs other than quoted prices, that are observable either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes debt securities and derivative contracts not traded in an open market.

Level 3: Inputs that are unobservable. There is little, if any, market activity. Inputs into the determination of fair value require significant management judgement and/or estimation. Level 3 primarily consists of MAV II notes as described in section (e) of this note, and foreign infrastructure investments.

The following table illustrates the classifications of the Fund's financial instruments using the fair value hierarchy as at March 31.

	2013			
	Level 1 $	Level 2 $	Level 3 $	Total $
Canadian short-term investments	9,425,542	2,397,033	-	11,822,575
Other liquid assets	8,854,073	-	-	8,854,073
Bond, debentures, and notes	-	487,467,845	20,166,845	507,634,690
Canadian equity securities	341,983,336	-	-	341,983,336
Foreign equity securities	624,974,718	4,396,979	-	629,371,697
Equity investments in real estate	-	71,853,097	197	71,853,294
Foreign infrastructure	-	-	8,264,963	8,264,963
Currency forwards	-	3,952,017	-	3,952,017
Totals	985,237,669	570,066,971	28,432,005	1,583,736,645
Accrued income				5,094,385
Total financial assets at fair value				1,588,831,030
Fund's pro-rated share				66.4363%
Fund investments *				1,055,545,200

3. Investments and Derivatives (continued...)

c) Fair Value Disclosure (continued...)

	2012			
	Level 1 $	Level 2 $	Level 3 $	Total $
Canadian short-term investments	10,562,569	6,131,610	-	16,694,179
Other liquid assets	575,215	-	-	575,215
Bond, debentures, and notes	-	500,314,714	20,166,845	520,481,559
Canadian equity securities	334,258,479	-	-	334,258,479
Foreign equity securities	533,578,128	-	-	533,578,128
Equity investments in real estate	-	43,447,591	197	43,447,788
Currency forwards	-	(1,784,741)	-	(1,784,741)
Totals	878,974,391	548,109,174	20,167,042	1,447,250,607
Accrued income				5,849,219
Total financial assets at fair value				1,453,099,826
Fund's pro-rated share				66.0273%
Fund investments *				959,441,987

* Rounded

There were no significant transfers between level 1 and level 2 financial instruments during the years ended March 31, 2013 or 2012.

The following table details changes in fair value measurement in Level 3 of the fair value hierarchy.

	Fixed Income $	Foreign Infrastructure $	Equity $	Total $
Level 3 investments, April 1, 2012	20,166,845	-	197	20,167,042
Net purchases (sales)	-	7,151,766	-	7,151,766
Realized gains	-	36,395	-	36,395
Unrealized gains	-	1,076,802	-	1,076,802
Total financial assets at fair value	20,166,845	8,264,963	197	28,432,005
Fund's pro-rated shares				66.4353%
Level 3 investments, March 31, 2013				18,888,888

3. Investments and Derivatives (continued...)

c) Fair Value Disclosure (continued...)

	Fixed income	Equity	Total
	$	$	$
Level 3 investments, April 1, 2011	16,746,214	197	16,746,411
Unrealized gains	3,420,631	-	3,420,631
Total financial assets at fair value	20,166,845	197	20,167,042
Fund's pro-rated share			66.0273%
Level 3 investments, March 31, 2012			13,315,753

d) Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market price fluctuations, credit risk, and liquidity risk. The Fund has set formal goals, policies, and operating procedures that establish an asset mix among equity and fixed income, required diversification of investments within categories, and set limits on the size of exposure to individual investments and counter parties. Risk and credit considerations are periodically assessed in consultation with external consultants, the Department of Finance, Energy and Municipal Affairs, and the Master Trust Investment Advisory Committee. Plan sponsor oversight, procedures, and compliance functions are incorporated into Fund processes to achieve consistent controls and to mitigate operational risk.

(i) Interest Rate Risk

Interest rate risk refers to the fact that the Fund's financial position will change with market interest rate changes as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund's assets and liabilities.

Assuming all other variables are held constant, a one percentage point change in nominal interest rates would change the fair value of the Fund by $18.7 million.

	Value of Fixed Income Securities	Weighted Average Duration	Percentage Point Change	Impact on Fair Value of the Master Trust	Fund's Pro-rated Share	Pro-rated Impact on Fair Value of the Fund
	$	yrs	%	$	%	$
2013	487.5 m	5.79	1	28.2 m	66.4353	18.7 m
2012	500.3 m	5.50	1	27.5 m	66.0273	18.2 m

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(ii) Price Risk

Price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Price risk includes interest rate and foreign currency risk. Market price risk is managed by the Fund through the use of diversified investment portfolios traded on various markets and across various industries. Assuming all other variables are held constant, a 10 percent change in market values of all public equities would change the fair value of the Fund by $69.3 million.

	Value of Public Equities $	Percentage Change %	Impact on Fair Value of the Master Trust $	Fund's Pro-rated Share %	Pro-rated Impact on Fair Value of the Fund $
2013	1,043.2 m	10	104.3 m	66.4353	69.3 m
2012	911.3 m	10	91.1 m	66.0273	60.2 m

(iii) Credit Risk

Credit risk is the risk of loss in the event the counter party to a transaction fails to discharge an obligation and causes the other party to incur a loss. Credit risk associated with the Fund is periodically assessed in consultation with external consultants, the Department of Finance, Energy and Municipal Affairs, and the Master Trust Investment Advisory Committee.

Fixed income
The Fund is exposed to credit risk from interest earning investments at March 31, as follows:

	2013 (millions) $	2012 (millions) $
Federal government	165.8	196.1
Provincial government	22.0	83.3
Municipal government	-	2.5
Corporate	323.9	242.0
Total investment credit risk exposure	511.7	523.9
Fund's pro-rated share	66.4353%	66.0273%
Fund's investment credit risk exposure	339.9	345.9
Provincial government promissory note	166.4	20.8
Fund's total credit risk exposure	506.3	366.7

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(iii) Credit Risk (continued...)

Security lending
The Fund participates in a Securities Lending Program whereby it lends securities for a fee to approved borrowers. To alleviate the credit risk, borrowers must provide collateral with a value of 105 percent of the value of the securities lent. The market value of the collateral is monitored by the custodian at least daily to ensure that the 105 percent threshold is maintained. In addition, security loans are allocated across various borrowers within the program and the Fund holds indemnification coverage, which mitigates the credit and market risk on the collateral.

The fair value of security loans outstanding and collateral held is as follows:

	2013 $	2012 $
Total security loans outstanding	180,123,304	147,602,532
Fund's pro-rated share	66.4353%	66.0273%
Fund's security loans outstanding	119,665,457	97,457,967
Total collateral held	189,121,227	154,988,600
Fund's pro-rated share	66.4353%	66.0273%
Fund's collateral held	125,643,255	102,334,788

Derivatives
The Fund is exposed to credit related losses in the event of non performance by counter parties to derivative financial instruments. In order to mitigate this risk, the Fund deals only with highly rated counter parties, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with a minimum credit standard of "A" rating, as supported by a recognized credit rating agency.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counter parties failed completely to perform under the contracts, and if the right of offset proved to be non enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counter parties, less any prepayment collateral or margin received as at the reporting date.

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(iv) Foreign Currency Risk

Foreign currency risk is the risk that the value of the future cash flow of the financial instrument will fluctuate because of changes in foreign exchange rates. Consequently, the Fund is exposed to the risk that the exchange rates of the various currencies may change in a manner that has an adverse effect on the value of the portion of the Fund's assets denominated in currencies other than the Canadian dollar. Foreign currency exposure arises from the holding of investments denominated in foreign currencies. A policy of hedging from 30 to 70 percent of the currency exposure is used to mitigate this risk.

The Fund's unhedged currency exposure from net investment assets as at March 31, is summarized in the following table.

	2013 (millions) $	2012 (millions) $
Currency		
Brazil	6.7	11.7
Switzerland	15.1	27.3
Euro Zone	41.9	62.7
United Kingdom	46.4	60.5
Hong Kong	20.0	27.0
Japan	29.6	46.9
Sweden	13.1	14.1
United States	172.2	207.9
Other	40.3	52.7
Total	385.3	510.8
Fund's pro-rated share	66.4353%	66.0273%
Fund's foreign currency exposure	256.0	337.3

After the effect of hedging, and without a change in all other variables, a 10 percent change in the Canadian dollar against all other currencies would change the fair value of the Fund by $25.6 million.

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(v) Liquidity Risk

Liquidity risk is the risk of not meeting the cash obligations of the Fund in an efficient manner. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund, and disposition of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Fund.

The Fund's cash management policy ensures that the quality and liquidity of the investment vehicles within the portfolios are consistent with the needs of the Fund.

e) MAV II Notes

The Master Trust holds MAV II notes (originally bank-sponsored asset backed commercial paper) in its bonds, debentures, and notes portfolios. The carrying value of the MAV II notes held at March 31, 2013, was $20,166,845 ($23,355,585 face value less a $3,188,740 discount). The carrying value of the MAV II notes are recorded at the amount for which they were sold subsequent to year-end.

4. Accrued Pension Obligation

a) Actuarial and Extrapolated Valuation

The present value of the accrued pension obligation was determined using the projected unit credit method pro-rated on service and management's best estimate, as at the valuation and extrapolation dates, of future economic events and involve economic and non economic assumptions. The non economic assumptions include considerations such as mortality and retirement rates. The primary economic assumptions include the return on investment, discount, inflation, and salary escalation rates.

The most recent actuarial valuation for accounting purposes prepared by the actuarial consulting firm Morneau Shepell, disclosed an unfunded liability of $150,283,000 as at April 1, 2011. The next actuarial valuation is scheduled to be completed in 2014.

4. Accrued Pension Obligation (continued...)

a) Actuarial and Extrapolated Valuation (continued...)

The economic assumptions used in determining the value of the accrued pension obligation for accounting purposes were developed by reference to expected long-term market conditions. Significant actuarial assumptions used in the March 31 extrapolation were as follows:

	2013 %	2012 %
Economic Assumptions		
Basic salary escalation rate (excluding promotional increases)	2.50	2.50
Discount rate used to determine accrued obligation	6.86	7.37
Expected rate of return on fund assets	6.86	7.37
Pension cost of living increase	2.40	2.40

	2013	2012
Non-Economic Assumptions		
Mortality	GAR94 projected to 2000 using Scale AA for both males and females.	GAR94 projected to 2000 using Scale AA for both males and females.
Retirement Age	Members are assumed to retire upon attaining "Rule of 90" (age plus credit service totals 90) but not before age 55 and not after age 63. All members, who at the valuation date have attained the retirement age under the above assumptions, are assumed to retire on the valuation date.	Members are assumed to retire upon attaining "Rule of 90" (age plus credit service totals 90) but not before age 55 and not after age 63. All members, who at the valuation date have attained the retirement age under the above assumptions, are assumed to retire on the valuation date.

b) Sensitivity of Changes in Major Assumptions

The Fund's future experience may differ from the assumptions used in the actuarial valuation and the extrapolation. Any differences between the actuarial assumptions and future experience could be significant and will emerge as experience gains or losses in future valuations which will affect the financial position of the Fund.

5. Funding Policy

In accordance with the *Civil Service Superannuation Act*, employees are required to contribute to the Plan as described in Note 1(b). Employers match employee contributions to the Fund. Under Section 5 of the *Civil Service Superannuation Act*, payments out of the Fund are guaranteed by the Province of Prince Edward Island. Subsequent to year-end, this section of the act was rescinded as described in Note 10.

As a result of an unfunded liability at April 1, 2005, the Province of Prince Edward Island made a special contribution through the signing of a $52,000,000 promissory note. The note, which is held by the Fund, is receivable in ten equal annual installments of $5,200,000 beginning October 15, 2006. Interest on the note is accrued at a rate of 4.41 percent per annum, and is receivable semi-annually on April 15, and October 15. Prior to October 15, 2015, any monies owing may be suspended on six months prior notice if the Minister of Finance, Energy, and Municipal Affairs deems the funded level, excluding any outstanding balances on promissory notes, to be 90 percent on a going concern basis as defined in the Province of Prince Edward Island Funding Policy for Government Sponsored Registered Pension Plans. Interest will be accrued to the date of any suspension implemented. Any monies suspended prior to and including October 15, 2015, are no longer due and owing. Provided no further monies are payable, the promissory note shall be deemed paid in full.

The following is a schedule of principal and interest payments as disclosed in the promissory note.

	Principal Payments	Interest Payments	
Date of Payment	Principal Payment	October 15	April 15
	$	$	$
October 15, 2006	5,200,000	-	1,031,940
October 15, 2007	5,200,000	1,031,940	917,280
October 15, 2008	5,200,000	917,280	802,620
October 15, 2009	5,200,000	802,620	687,960
October 15, 2010	5,200,000	687,960	573,300
October 15, 2011	5,200,000	573,300	458,640
October 15, 2012	5,200,000	458,640	343,980
October 15, 2013	5,200,000	343,980	229,320
October 15, 2014	5,200,000	229,320	114,660
October 15, 2015	5,200,000	114,660	-
	52,000,000	5,159,700	5,159,700

5. Funding Policy (continued...)

Since the promissory note was not signed until March 30, 2007, but provided for a principal payment as of October 15, 2006, additional interest was paid on the scheduled principal payment of October 15, 2006, as the first payment was not made until April 16, 2007.

As a result of an unfunded liability at April 1, 2011, the Province of Prince Edward Island made a special contribution through the signing of a $150,761,400 promissory note. The note, issued December 11, 2012, is held by the Fund, is receivable in ten equal annual installments of $15,076,140 beginning April 1, 2013. Interest on the note is accrued from April 1, 2012, at a rate of 2.9 percent per annum, and is receivable semi-annually on April 1 and October 1. Prior to April 1, 2022, any monies owing may be cancelled on six months prior notice if the actuary to the Plan deems the funded level, excluding any outstanding balances of this promissory note, to be 90 percent pursuant to an actuarial valuation for funding purposes conducted in accordance with accepted actuarial practice in Canada. Interest will be accrued to the date of any cancellation implemented.

The following is a schedule of principal and interest payments as disclosed in the promissory note:

	Principal Payments	Interest Payments	
Date of Payment	Principal Payment $	April 1 $	October 1 $
April 1, 2012	-	-	2,186,041
April 1, 2013	15,076,140	2,186,041	1,967,436
April 1, 2014	15,076,140	1,967,436	1,748,832
April 1, 2015	15,076,140	1,748,832	1,530,228
April 1, 2016	15,076,140	1,530,228	1,311,624
April 1, 2017	15,076,140	1,311,624	1,093,020
April 1, 2018	15,076,140	1,093,020	874,416
April 1, 2019	15,076,140	874,416	655,812
April 1, 2020	15,076,140	655,812	437,208
April 1, 2021	15,076,140	437,208	218,604
April 1, 2022	15,076,140	218,604	-
	150,761,400	12,023,221	12,023,221

Subsequent to year-end, legislation was passed stating that a promissory note issued by the Government to the Fund cannot be cancelled or recalled by the Government before the maturity of the promissory note, unless the Government contributes to the Fund an asset equal to or greater than the value of the promissory note on the date the promissory note is cancelled or recalled.

6. Operating Expenses

The Fund is charged with administrative and operating expenses. The following is a summary of these expenses.

	2013 $	2012 $
Administration expenses - pension section	830,660	638,396
- investment section	92,703	74,144
	923,363	712,540
Consulting fees	234,496	93,838
Actuarial fees	14,274	54,864
Investment expenses		
Custodian	168,015	120,899
Monitoring	130,463	187,079
Management	4,228,232	3,299,452
	5,698,843	4,468,672

7. Related Party Transactions

The Province of Prince Edward Island is the sponsor of the Plan. At the financial statement date, the Province guarantees all payments owing by the Fund and has committed to the funding requirements as defined by the Funding Policy (Note 5). Subsequent to year-end legislation was passed which changed the pension benefit guaranteed by the Province, as outlined in Note 10. As a participating employer, the Province matches regular bi-weekly employee and eligible prior period service contributions. Employee and employer contributions receivable from the Province as at March 31, 2013, totalled $980,402 (2012 - $1,500,714).

The Province provides pension and investment administration services to the Fund. A portion of the Province's costs relating to these services is recovered annually from the Fund. Costs recovered for the Pension section totalled $666,700 (2012 - $482,030) and recoveries related to the Investment section totalled $92,703 (2012 - $74,144). Other costs recovered by the Province totalled $132,568 (2012 - $125,930).

The Prince Edward Island Master Trust is not invested in debt of the Province of Prince Edward Island as of March 31, 2013 (2012 - $4.7 million). The funds pro-rated share was $3.1 million at March 31, 2012.

The total amount payable to the Province at March 31, 2013, was $969,729 (2012 - $750,295).

Total notes and interest receivable from the Province at March 31, 2013, was $168,863,070 (2012 - $21,220,840).

8. Capital Management

The main objective of the Fund is to sustain a level of net assets in order to meet the pension obligations of the Fund. The Plan sponsor manages the contributions received and benefits paid as required by the *Civil Service Superannuation Act*.

In an effort to utilize economies of scale, contributions for the Province's three registered pension plans are pooled and invested together in the Province's Master Trust (the Master Trust). Each pension plan holds units of the Master Trust in proportion to the value of contributions made. The Province has developed a Statement of Investment Policies and Procedures (SIP&P) to provide the framework for how the Master Trust's assets are to be invested, monitored, and evaluated. Assets are managed by engaging knowledgeable, external investment managers who are charged with the responsibility of investing new and existing funds in accordance with the SIP&P. A Master Trust Investment Advisory Committee exists for the purpose of protecting the pension fund assets, monitoring asset mix, reviewing costs, reviewing investment returns, and assessing investment manager performance, as well as providing advice to the Minister of Finance, Energy and Municipal Affairs who serves as Trustee for the Province's three registered pension plans.

9. Commitment

The Master Trust was changed to increase the proportion of real estate investments. The Master Trust has committed to and invested a total of $33 million in Canadian Equities Real Estate Investment.

The Master Trust has entered into an arrangement where it has committed to invest $35 (US) million with Global Infrastructure Partners (GIP) Fund. GIP is an independent infrastructure fund manager that invests in high quality infrastructure assets in the energy, transport, water, and waste sectors; $11.6 (US) million has been invested as of the financial statement release date.

10. Subsequent Events

a) Plan Amendments

Subsequent to the financial statement date, legislation was passed to amend the *Civil Service Superannuation Act*. These amendments take effect January 1, 2014, and are summarized as follows:

- As part of the transition to this new plan design, the Province will provide a one-time funding injection that will bring the funded status of the plan to 122 percent as at January 1, 2014. The funding injection will be made after plan amendments and assumption changes are accounted for.

10. Subsequent Events (continued...)

a) Plan Amendments (continued...)

- The salary component of the benefit formula will be calculated based on average indexed earnings. The earnings attributed to each year of pre 2014 pensionable service, and indexed thereafter, will be the December 31, 2013, 3-year highest average salaries calculated under the *Civil Service Superannuation Act* prior to the plan amendment. Annual indexation of salaries is guaranteed for 2014, 2015, and 2016 at a rate of 1.5 percent per annum for the Civil Service Superannuation Fund. After 2016, salary indexing will be contingent on the plan having a funded status greater than 100 percent and limited to the assets determined to be available for that purpose.

- Annual indexation of deferred and retiree pensions is guaranteed for 2014, 2015, and 2016 at a rate of 1.5 percent per annum for the Civil Service Superannuation Fund. After 2016, indexation of deferred and retiree pensions will be contingent on the plan having a funded status greater than 110 percent and limited to the assets determined to be available for that purpose.

- Commencing January 1, 2019, the unreduced retirement rules will change such that pension earned on pensionable service credited after 2018 will be payable on an unreduced basis when a member, at his or her date of retirement, is at least 62 years of age or at least 55 years of age with 32 or more years of pensionable service. The pre-amendment unreduced retirement rules will continue to apply to pensionable service credited prior to 2019.

- After 2016, contribution rates will vary as follows depending on the funded status of each plan as measured at each valuation date:

  - If the funded status falls below 110 percent, employee and employer contribution rates will increase by 1 and 2 percentage points, respectively, and these rates will remain in force until the funded status improves to at least 115 percent.

  - If the funded status falls below 100 percent, the employer contribution rate will increase by a further 2 percentage points in addition to the rate increases for a funded status below 110 percent. This additional employer contribution rate increase will remain in effect until the funded status improves to at least 105 percent.

  - If the funded status improves to 135 percent or higher, employee and employer contribution rates will decrease by 1 and 2 percentage points, respectively, until the funded status falls to or below 130 percent.

  - If the funded status improves to 145 percent or higher, the employer contribution rate will decrease by a further 2 percentage points in addition to the rate decreases for a funded status at or above 135 percent. This additional decrease will remain in effect until the funded status falls to or below 140 percent.

10. Subsequent Events (continued...)

a) Plan Amendments (continued...)

- The benefits guaranteed by the Province no longer include indexation after 2016 as it has been made contingent on the plan's ability to pay for those benefits. The funding of deficits under this new guarantee is the Province's responsibility with special payments being required whenever the plan has a funded status below 100 percent and the contributions required, as noted above, are not projected to achieve a funded status of at least 100 percent within 5 years.

The above plan design and actuarial assumption changes are estimated to potentially decrease the Plans gross pension obligations.

b) Province of Prince Edward Island Master Trust

Subsequent to March 31, 2013, Executive Council approved changes to the Statement of Investment Policies and Procedures (SIP&P) for the Province of Prince Edward Island Master Trust. Proposed changes reflect a revised interim benchmark for asset mix under the SIP&P to reflect a higher level of fixed income holdings and an amendment for the re-balancing policy within asset classes. It is anticipated that these changes will decrease the discount rate assumption going forward and result in a significant increase in the accrued pension obligation.

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